BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
    Chairman
GARY PIERCE
    Commissioner
PAUL NEWMAN
    Commissioner
SANDRA D. KENNEDY
    Commissioner
BOB STUMP
    Commissioner

Arizona Corporation Commission
DOCKETED

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IN THE MATTER OF THE APPLICATION	)	DOCKET NO. G-02528A-09-0237
OF DUNCAN VALLEY ELECTRIC	)	
COOPERATIVE INC. FOR APPROVAL OF	)	DECISION NO. **71232**
ITS PURCHASED GAS ADJUSTOR	)	
SURCHARGE AND CALCULATION	)	ORDER
	)	

Open Meeting
July 28 and 29, 2009
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Background

    1.   Duncan Valley Electric Cooperative ("Duncan" or "the Cooperative") provides natural gas service through its Gas Division within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").[1]

    2.   Duncan is an electric cooperative which, through its Gas Division, distributes natural gas in Greenlee County, Arizona. As of May 2009, its Gas Division served 2,729 customers.

    3.   On May 14, 2009, Duncan filed an application with the Commission for approval of three changes to its Purchased Gas Adjustor ("PGA"): (i) for a change in the way Duncan's PGA rate is calculated; (ii) to eliminate the current $0.10 limit on how much the PGA rate can increase

[1] Duncan's Gas Division was previously known as Duncan Rural Services Corporation ("DRSC"). DRSC was dissolved in accordance with Decision No. 69679 (June 28, 2007). Its assets, certain liabilities and Certificate of Convenience and Necessity ("CC&N") were transferred to Duncan's Gas Division as part of that dissolution.

1 or decrease on a month-to-month basis; and (iii) for a surcredit, or negative surcharge, of $0.10

2 per therm in order to pay back an over-collected balance for its PGA.

3 *The Current PGA Mechanism: Twelve-month Rolling Average, $0.10 Limit and $35,000 Bank*

4 *Balance Threshold*

5   4.   Like other gas utilities, Duncan is not allowed to make a profit on the cost of

6 natural gas, but it is allowed to recover the cost of the gas it provides, including transportation

7 costs, through a PGA rate. Currently, Duncan's PGA rate is calculated based on a twelve-month

8 rolling average, with a $0.10 monthly bandwidth.[2] The rolling average and bandwidth are

9 designed to reduce the volatility of gas costs passed on to customers. The rolling average produces

10 a more predictable and consistent PGA rate, while the bandwidth provides another brake on

11 volatility by limiting changes (increases or decreases) to no more than $0.10 per therm, compared

12 to the previous month's PGA rate.   These features of the PGA mechanism limit rate shocks to

13 Duncan's customers.

14   5.   Because it is based on a rolling average, and because the actual cost of gas varies

15 over time, each month Duncan either over- or under-recovers its costs by varying amounts.

16 Whether negative or positive, the monthly difference between the PGA rate and what Duncan

17 actually pays for gas and transportation is tracked and reported in the Cooperative's adjustor bank

18 balance.

19   6.   Duncan is required to file for a surcharge (or surcredit) when its bank balance,

20 either negative or positive, reaches $35,000. The $35,000 threshold on balances is designed to

21 ensure that over-collections and under-collections are resolved on a timely basis and before large

22 balances accumulate. The present application does not propose any changes to the threshold.

23 *Proposed Changes to the PGA Mechanism*

24   7.   Duncan proposes to change from a twelve-month rolling average to a six-month

25 rolling average, stating that basing the PGA rate on a shorter period would keep the PGA rate

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27 [2] In its rate case concluding in March 2006 (Decision No.68599), the Commission changed the limit on changes on the
PGA rate from $0.10 per therm per year to $0.10 per therm per month. A letter from Commission Staff to Duncan,
28 dated April 21, 2006, provided clarification on the operation of the PGA mechanism (Docket No. G-02528A-05-0314).

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1 closer to Duncan's actual gas costs. Duncan states that the twelve-month rolling average has

2 resulted in a larger over-collection than would have existed with a six-month rolling average.

3   8.   Duncan has also proposed that the existing $0.10 per therm per month limit be

4 eliminated. The Cooperative cites the time and expense of filing for changes in the adjustor larger

5 than $0.10 as its reason for seeking the change.

6 *Staff Recommendation Regarding Proposed Changes to the PGA Mechanism*

7   9.   Staff is opposed to revising the rolling average and eliminating the $0.10 limit. The

8 Cooperative's proposed changes to the PGA mechanism would affect rates and alter the ways in

9 which costs are recovered. Staff believes that such fundamental changes to the functioning of the

10 PGA mechanism would be more appropriately considered and addressed in a rate case.

11   10.   Staff also notes that basing the rolling average on six months would not only

12 incorporate fewer months of data, but could also eliminate seasonal variations in price. For these

13 reasons, although changing to a six-month rolling average would keep the PGA rate closer to

14 Duncan's actual gas costs, it would also increase the volatility of costs passed on to customers.

15   11.   With respect to eliminating the $0.10 limit, Staff believes that Duncan already has

16 significant latitude for passing on changes in cost through the PGA mechanism without

17 Commission approvals. Removing the limit altogether would potentially increase Duncan

18 ratepayers' exposure to rate shock, in the event of dramatic increases in the price of natural gas.

19   12.   Staff has recommended that the proposed changes to the Duncan PGA mechanism

20 not be made, and that the PGA rate continue to be calculated based on a twelve-month rolling

21 average, with a $0.10 month-to-month limit on changes to the PGA rate.

22 *Proposed Surcredit*

23   13.   Dramatic changes in the price of natural gas, as occurred in 2008, increase the

24 difference between the rolling average and what the Cooperative actually pays for gas, thereby

25 contributing to a larger PGA bank balance. In its application, Duncan reports that its over-

26 collected bank balance was approximately $60,000 as of May 31, 2009. The May PGA Adjustor

27 report indicates that this amount has now risen to $78,428.

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14.   Duncan proposes a PGA surcredit of $0.10 per therm so that the Cooperative can credit the over-collection back to its customers. Average summer usage for Duncan's Residential customers is 20 therms, while average winter usage is 75 therms, meaning Duncan's proposed surcredit would result in a $2.00 reduction on summer bills and a $7.50 reduction on winter bills.

15.   Staff concurs that a surcredit is necessary in order to return over-collected monies to Duncan customers and reduce the bank balance. Staff has recommended that Duncan's request for a $0.10 per therm surcredit be approved and that the surcredit remain in place until the bank balance is reduced to zero or until further order of the Commission

CONCLUSIONS OF LAW

1.   Duncan is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2.   The Commission has jurisdiction over Duncan and over the subject matter of the application.

3.   The Commission, having reviewed the application and Staff's Memorandum dated July 15, 2009, concludes that it is in the public interest to approve the negative surcharge, or surcredit, of $0.10, and to not approve the changes to the PGA mechanism proposed by Duncan.

ORDER

IT IS THEREFORE ORDERED that the proposed changes to the Duncan Valley Electric Cooperative PGA mechanism not be made, and that the PGA rate continue to be calculated based on a twelve-month rolling average, with a $0.10 month-to-month limit on changes to the PGA rate.

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1   IT IS FURTHER ORDERED the surcredit be set at $0.10 per therm and that it continue

2   until the bank balance reaches zero or until further order of the Commission.

3   IT IS FURTHER ORDERED that this Decision shall become effective immediately.
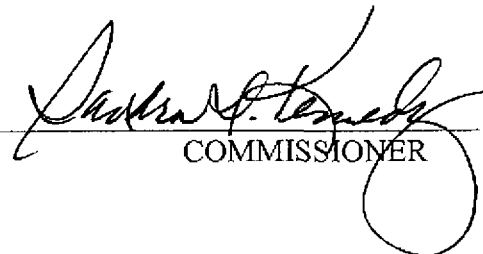
4   **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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6   _____   _____
              CHAIRMAN   COMMISSIONER

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           COMMISSIONER   COMMISSIONER   COMMISSIONER

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11   IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,

12   Executive Director of the Arizona Corporation Commission,
                                      have hereunto, set my hand and caused the official seal of this

13   Commission to be affixed at the Capitol, in the City of
                                      Phoenix, this _6TH_ day of _AUGUST_____ , 2009.

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17   _____
                                      ERNEST G. JOHNSON

18   EXECUTIVE DIRECTOR

19   DISSENT: _____

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21   DISSENT: _____

22   EGJ:JMK:lhm\MAS

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                                                        Decision No. __71232__

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    DOCKET NO. G-02528A-09-0237
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